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SUBJECT: AZERBAIJAN - REPORT ON FISCAL TRANSPARENCY

REF: STATE 16737

¶1. Per reftel, this cable contains Embassy's 2008 country narrative on fiscal transparency in Azerbaijan.

¶2. The process to publicize the state budget in Azerbaijan has changed with the implementation of the Budget System Law, which took effect in January 2003. The President submits the budget to Parliament for approval. Once approved by Parliament, budget information is typically published in the local print media. Budget amendments are also published in the media, once they are approved by Parliament. During the fiscal year, press releases containing revenue and expenditure information are regularly available. Information about the State Budget can be found on the Ministry of Finance web site http://www.maliyye.gov.az/index_en.jsp

¶3. The Budget System Law, which was designed in close cooperation with the IMF and the World Bank, has improved transparency. Over the last three years World Bank staff and USAID/U.S. Treasury technical experts have worked with the government to improve the information included in the Medium-Term Expenditure Framework (MTEF). The dramatic increase in oil revenues since the opening of the Baku Tbilisi Ceyhan pipeline in 2006 has made budget formulation more difficult. Until recently, the approved budget included a one line lump sum amount for the investment budget. Starting in 2007, public investment projects to be included in the budget were itemized in the budget document submitted to Parliament for approval (although the total amount of funding for the capital budget continued to be stated as a lump sum amount). The problem of selecting the investment programs projects, after budget approval is not addressed in the Budget System Law.

4. In 2007, with USAID support, the Ministry of Economic Development (MOED) issued for the first time a systematic capital budget call circular and established a Public Investment Planning Department in order to promote more well-organized and better informed capital budget planning processes. In addition, USAID has worked with the MOED and line ministries to expand the number of budget planning staff with training in cost/benefit analysis principles and techniques. USAID experts have been working with the MOED since mid-2007 on development of a draft Public Investment Planning Decree. Once approved, the Public Investment Planning Decree will mandate the adoption of rigorous cost/benefit analysis procedures for all large-scale public investment projects; and facilitate the formation of sectoral medium-term budget planning committees to ensure that sector strategies/operational plans and related public investment plans are soundly formulated. In addition, the GOAJ recently approved a World Bank-supported resolution mandating formation of a COM [What is COM?] macroeconomic

working group to ensure that consistent macroeconomic forecasting projections are utilized for annual/medium-term budget development purposes.

¶15. Treasury operations in Azerbaijan improved with the 2005 passage of the Single Budget Classification of budget revenue and expenditures. The lack of computerization of the Treasury function has traditionally hindered the Ministry of Finance from accurately determining its current expenditures, commitments, and cash positions. The lack of a computer system has resulted in the opportunity for graft and a considerable lag time in the collection and preparation of financial reports. USAID has worked to improve the budget tracking and execution system through a treasury automation support program also supported by the World Bank. Under this program, an automated budget execution system has been set up in four pilot sites covering approximately 15 percent of public expenditures. The GOAJ wants to roll the system out to cover about 85 percent of expenditures in 2008. USAID's current intensive technical training support programs in the budget planning and administration areas, which wrap up in early 2008, will be followed by a new public expenditure reform support program scheduled to start implementation in spring 2008. The core goals of this program will be to ensure that rigorous capital budgeting and medium-term budgeting procedures are effectively introduced in key expenditure sectors, and that the transparency and efficiency characterizing the budget administration system is significantly improved.

¶16. The IMF regularly reports on macroeconomic developments in Azerbaijan through the Article IV consultation process. In addition, the GOAJ also publishes a fiscal transparency ROSC (Review of Standards/Codes); and is available on the

IMF website. A joint IMF and World Bank-supported Public Expenditure Management Assessment project is currently underway.

¶17. Key relevant laws/regulations on budget disclosure: Budget System Law 2003 as amended, and Single Classification, Capital Budget Call circular (2007), and draft Public Investment Planning Decree (expected 2008), as already mentioned.

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